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Oral History Program

Transcript of interview with

MAHBUB UL HAQ

Date: December 3, 1982

By: Robert Asher

Asher: Today is Dec. 3, 1982. My name is Robert Asher. I have with me here, in Washington, Dr. Mahbub Ul Haq, Minister of Development and Planning for Pakistan. Mahbub, you have superb qualifications for discussing the policies and operations of the World Bank. You were born in the Jammu-Kashmir area of the sub-continent and attended the Government College in Pakistan. You have graduate and Ph D. degrees from Cambridge University in England and Yale University in this country. You were Chief Economist of the Planning Commission in Pakistan before coming to the World Bank.

Your association with the World Bank began in the 1960's when you were a lecturer at the EDI before Robert McNamara became President of the Bank. During much of his eventful Presidency, you were Director of the Bank's Policy Planning and Program Review Staff. You then left the Bank, about a year ago, to return to Pakistan as Minister of Planning and Development. So you have had an almost unparalleled opportunity to see the Bank through both ends of the telescope, that of a major borrowing government and that of the lending institution.

You were, in all probability, brought up on conventional, growth-oriented, trickle-down development economics. But you have become one of the world's most prominent advocates of a fundamentally different approach, that of raising the productivity and meeting the basic needs of the poorest people of the poorest countries. Robert McNamara also became an ardent and articulate advocate of that approach. Can you tell me a little bit about the experiences, the studies and the relationship between you and the Bank President that brought about your own conversion and that of the World Bank? Interactions or experiences, anything you would like to say that helps to explain the Bank's sharp shift from financing basic infrastructure to a large role in financing the so-called new style projects?

Ul Haq: Bob, when I arrived in the World Bank, it was a bit on the rebound from the Pakistan experience. I had just gone through, in the context of Pakistan, thirteen very eventful years as part of the Planning Commission of Pakistan and in the first few months of my association with the Bank, I had an opportunity to review, in tranquility, that experience and what it meant.

We hadn't done too badly in the previous ten years in Pakistan. I came here in 1970 and basically, looking at the 1960's experience, Pakistan had done well in the economic field, in the growth sense, particularly West Pakistan. We had a 7% growth rate and a good agricultural growth rate. It was a country which had turned around from a stagnant economy to a flourishing exporting economy. Yet, in the last year of my association with the Planning Commission, I had to see the sad experience of people pouring into the streets, questioning the very wisdom of the economic development strategy that we had had in the previous 10 years. And I had the opportunity, as I said, here, in this town, to rethink many of the concepts that I had taken for granted.

April-1970



It was quite clear that even though we had increased the national income, we hadn't changed the lives of people. Despite that 7% growth rate in West Pakistan, the situation was that real wages had gone down by one-third during the ten year period.

Asher: Without inflation?

Ul-Haq: There was inflation, but taking the impact of inflation into account, the real wages had gone down. The disparity between rural and urban areas had increased because 70% of our population was in rural areas and, at that stage, they were getting 10% to 15% of the total public services.

The disparity between East and West Pakistan had increased. The majority of our population was in East Pakistan which was later to break away in anger, against what they considered exploitation by the West and during this phase that had happened.

Also, the industrial wealth was concentrated in the hands of twenty-two family groups; about 80% of industrial investments, banking and insurance was controlled by twenty-two families in Pakistan, a situation about which I raised my voice, even when I was part of the Pakistan Government.

Development had become very warped and the real benefits had not trickled down. We had been taught that if growth is fast enough, at some stage or another, enough of it trickles down to make people happy and I had seen people stoning the development projects that I had built up with great care.

We were all very well meaning, very committed people, I think. I was a very young person when I went to the Planning Commission. I worked with idealism and I saw all this collapsing in front of my eyes. And I remember, Bob, that you were the one who gave me an opportunity in the SID meeting,* which was being held in 1971, to speak about some of this experience, where I questioned that experience and talked about taking development directly to the people.

I recall the reaction in the World Bank at that stage. It was one of shock and disbelief. I recall my first encounters with McNamara at that time. They were extremely unhappy ones. He suggested to me that this kind of belligerent questioning of growth, at a time that the World Bank was committed mostly to production projects, was totally uncalled for. In fact, I can tell you now, in retrospect, things that I haven't talked about before. In 1971, after my talk with McNamara, I decided to leave the Bank. I indicated that I would go back. After all, I had come to the Bank on deputation from my government for only two years.

Asher: Were you actually on leave from the government?

*Haq is referring to the World Conference of the Society for International Development held in Ottawa, Canada in May 1971.

Ul-Haq: I was on leave. I had not become a regular member of the Bank staff, so I offered to go back and was quite prepared to go back, in fact, was expecting to go back. And I must say my first affection and real admiration for McNamara began then, when he called me back and asked me to write down coherently, all the arguments that I could marshal in favour of the thesis that we must focus directly on poverty and on the poor sectors, on certain target groups, and that "trickle down" would not work.

He invited me to write his annual speech and I felt that probably he wanted me to commit myself in writing and so demonstrate just how shoddy some of the arguments were. But this was the measure of the man which later on I came to appreciate. He always used to rethink issues. His belligerence was often an invitation to sharpen your own arguments and to be professional and until he had come to terms with something in his mind, he would keep rethinking it and coming back to it.

Over the next few months, I had several opportunities of discussing these issues with him and I ended up writing his first policy speech where we coined many terms about the bottom 40% and their condition. We marshalled many facts about how societies had grown overall, but how the bottom 40% growth rate had remained much lower; he wanted facts and figures.

Asher: Excuse me, was this a pre-Nairobi speech?

Ul Haq: It was.

Asher: Nairobi was 1973?

Ul Haq: This was before 1973. The Nairobi speech was in 1973 and focused on the small farmer. But in the 1971 and 1972 speeches, first there was a discussion of the bottom 40%; for example, how societies like Brazil had grown at 8% to 10%, but the bottom 40% had grown at 1% a year. He wanted us to compile profiles of poverty, which we did. He wanted to know facts and figures, to satisfy himself that it was a genuine problem. I think that during that period he was convinced that growth was not trickling down. The evidence was there for the previous twenty to twenty-five years of development in many countries.

Basically, where I think McNamara sharpened his concepts, and from where I learnt, was that he was no sentimentalist. When he realized that the poor were disenfranchised politically and economically, he wanted to know precisely how you could reach them, what the delivery systems were, how growth should be generated so that it was not hijacked by the privileged few and also he wanted to know what institutions could get to the poor. It was through that process of deliberation that he came to the concept which was to dominate World Bank thinking and my own thinking for a long time to come, the concept of increasing the productivity of the poor.

The focus was not on generosity, not on charity, not on transfers, not on distribution. The focus was on production, but increasing the productivity of the poor sector. He looked around the poor sector and said, this sector has assets with which we can work closely, it has the small farmer. Here was somebody with some assets. He felt that without assets, the poor sector was just a restless, shifting population, particularly in urban areas, which would be very difficult to reach. But on the land, with a small farm, you could reach the poor sector with credit, with public services of water, fertilizer, extension, education and a lot of other things.

So, his great virtue was to take a concept and to make it operational. During those two years this process went on. He talked generally in those two speeches that you looked up, like the onward speech in 1971-1972. He talked about and to the marginal men, the bottom 40%, those whom growth does not reach and he did not offer a solution, because then we didn't have one. It was in the Nairobi speech in 1973 that we brought the various strands together and we said, increase the productivity of the small farmer, there are institutional means available for it. And if the governments are willing, the Bank is willing to increase its lending through those institutions.

I think that, in the context of poverty thinking, throughout my association with McNamara, I felt he was very impatient with those who just glamorized poverty and wanted to go through distribution schemes which he regarded as a waste of time. Welfare economics did not interest him. Although, he did regard them at times as a necessary expedient for temporary, political purposes. He was a very hard headed, hard nosed man. He wanted to make poverty, as he kept telling me, acceptable to the bankers. It had to be a bankable proposition, it had to be financially viable. I think his great contribution was to take up this concept of increased productivity of the poor. For people could associate with it, because it brought production and distribution together and did not focus on either one to the exclusion of the other.

Asher: Now, this educational process which I take it was, to some extent, a mutual one, involving both you and the President of the Bank, how much of it was conducted or carried on, so to speak, privately between you two, and to what extent was it carried out through any machinery of the Bank as an institution, with all of the departments and divisions and all the enormous staff that it has?

Ul Haq: Well, McNamara created, for the first time, a Policy Planning and Program Review department and staff in 1972.

Asher: In that big reorganization?

Ul Haq: Yes, in that big reorganization. Now that I reflect upon it, I feel that he never really used this policy planning staff for the staff function it was supposed to perform. He did use me, I think, very effectively, as his own policy advisor. I was fortunate to have a good deal of direct and frequent access to him on all policy issues. He involved me in all major policy discussions and decisions in the Bank. But, basically, the institutions that we created were an adjunct to that.

Asher: You said all decisions. That doesn't include financing the Bank, does it? I mean by that, how the Bank raised its funds. Was that part of the policy planning process?

Ul Haq: It was to some extent. IDA discussions were. I was very much involved in IDA, in fact, we did the basic analysis and policy papers on IDA strategy. On the IBRD side, we were not involved in capital markets, the liquidity ratios of the Bank and many of the financial structures, that was the side of programming and budgeting and the financial complex. But even there, we were fully involved in the question of the size of lending, in the question of overall assistance to developing countries, in the sights that we should set for the future and in the five-year plans that we had, both overall and country-wise. So I was personally involved in a very broad range of decisions and I always felt very fortunate to have that vantage point.

I must say, though, I felt very dissatisfied with the way he used staff and with the way he used the Policy Review Committee which he set up and which he chaired.

Asher: Dissatisfied in what senses?

Ul Haq: Dissatisfied in the sense that I felt that the policy planning staff should ideally look ahead, not so much to immediate problems and immediate policy issues that we had to deal with day to day and in the coming year, but over a five to ten year perspective. I felt that it ought to do a lot of spade work of the kind which the planning commission did later on, of the kind that any institution has to do in order to keep setting its sights. I don't think McNamara thought in those long-term senses, in the way that I would have done; nor would I have wanted to use the staff in the way that he did. Priorities originated from him. If he was suddenly interested in the energy affiliate, then that would be the top priority.

But, once the energy crisis had come, he did not allow any work to be carried out for a few years on the idea of how the financing would be done in the developing countries. After all, the energy crisis broke upon us in 1974. McNamara got hold of the issue in 1979. In between that time we had raised this issue and he had said that the time was not right, that we shouldn't want to work on these issues. The result was that the kind of spadework that has to be done institutionally to prepare people for this kind of thing didn't get done and the kind of political footwork that has to be done on these issues did not get done. He was a very powerful and very dynamic person and often he would use the force of his personality to carry conviction and to carry through things in a hurry, once he had made up his mind, and a lot of the staff work had to be done under the pressure of those deadlines.

Asher: And did that, in itself, create some resistance and some uneasiness about the numbers that were being compiled and so forth?

Ul Haq: It meant that one could not carry the whole of the Bank along in this. Now, realizing McNamara's non-institutional biases and his tendency to personalize many of these policy concerns, I tried very quietly to set up a policy planning staff committee which would meet at the Departmental Director level and would involve Chief Economists in it. The idea of those meetings was that, if there was a particular issue like, let's say, forestation policy, or fertilizer policy or anything else, a question of whether the Bank should change its role in a particular kind of lending in the future, one would get together top expertise from within the Bank and from outside and have a whole series of brainstorming sessions. Those were the ones we enjoyed most, because that is where the ideas emerged.

Asher: You chaired those?

Ul Haq: Either I would chair them, or some Hollis Chenery chaired and some Ernie Stern chaired. But when it reached the top level, when we presented it to the Policy Review Committee which McNamara chaired, I think two things were wrong with that setup. One was that McNamara had always been, and probably always will be, a very domineering chairman. He brow-beat people intellectually. He never really invited comments. He had made up his mind and he wanted a consensus and he would feel uncomfortable if dissenting voices were raised. The result was that the Policy Review Committee never became, in the real sense, a discussion forum for policy issues. It was a decision forum to give decisions.

Asher: To ratify decisions?

Ul Haq: To ratify decisions. I think that's quite correct. People felt very uncomfortable with this. There was quite a lot of murmur about it and about why such a forum should continue, with the result that as soon as McNamara left, the forum disappeared. Secondly, McNamara was always very uncomfortable with a large number of people in the room. The Policy Review Committee had in all about fifteen to eighteen Vice-Presidents because the idea was to get at least a review of these issues from various vantage points at the top level, before they became Bank policies.

Asher: You mean Vice-Presidents for the Committee, not Vice-Presidents of the Bank?

Ul Haq: No, Vice-Presidents of the Bank.

Asher: Were there fifteen or eighteen Vice-Presidents?

Ul Haq: Yes. There were two or three at the Director level who were involved, but generally they were all Vice Presidents who were involved and I don't think McNamara ever felt very comfortable with it. He asked me several times to limit it to seven or eight people and sometimes, for more important issues, he, himself, just limited the meeting to smaller groups. Or, if we were discussing the Third Window, we wrote the policy paper for it and he

wouldn't bring it to the Policy Review Committee. He wanted to discuss it in a very small forum of four or five people who met in his office. Many of the people then who were later on to be involved in it, particularly say a regional Vice-President, had no idea of what kind of bird the Third Window was going to be.

He always felt that the more important the decision, the fewer the people who should be involved and it should be kept very secret. I always felt uncomfortable with that style of doing things, because I felt the more important the issue, the more you had to get support from all over the Bank, so that it was a shared policy because, after all, implementation takes everyone.

Asher: Did he think of you at all as, what in current Washington jargon is called "a point man"; someone who would go and try out publicly many ideas to see how they would float? The reason I ask is because you became a very prominent spokesman and this must have been with his tolerance at least. Was it with his encouragement, or was it an embarrassment, or what?

Ul Haq: I think, quite honestly, it was a combination of his tolerance and encouragement. I think McNamara was shrewd enough to realize that there were a number of constituencies that he had to harmonize in order to get things done. He was quite comfortable with the idea of somebody floating trial balloons which he could later on either own up to, puncture or modify. There were times when he felt very uncomfortable with things that I said outside the institution and we used to have long discussions about it.

Asher: After the fact?

Ul Haq: After the fact. I must say to his credit, he never put any constraints on me. I think he realized that mine could be a very useful role when it came particularly to getting feedback from various constituencies, to articulating the developing countries' point of view and to putting on pressure for change. He used to tell me, from time to time, that his drawer was full of letters, which had come to him, calling for my resignation. Many of them were from senior members of the presidential staff. I don't know whether I should name anyone, but one of the most senior people there took the lead in this. He had about twenty memoranda accumulating in a drawer, which I saw once.

Asher: It actually was there?

Ul Haq: Oh yes, they were there. He would get a lot of mail on this.

Asher: From inside and outside the Bank?

Ul Haq: Yes.

Asher: Was he willing to take this?

Ul Haq: He would get a lot of mail from various interested groups from all over the world. If I talked about the Third World multinationals being formed, he would get letters from the U.S. multinationals, several of them, calling for either my resignation or dismissal. Let's see, he got several when I went to give my lectures to Guyana on the New International Economic Order. There was a long protest from the Ambassador there and from the State Department suggesting that with these views, I did not belong in the World Bank. I must say, to his credit, that he never even once asked me to modify anything that I was doing within the Bank or outside it.

I think he reprimanded me only once and he did it on exactly the right issue. In 1977, I wrote a letter to the Washington Post, criticizing my then Prime Minister, Mr. Bhutto, because elections had been held and there was turmoil and fighting going on in the streets of Pakistan. I was very distressed and I wrote a very political letter. At that stage he talked to me and said, "I can defend you when you take up intellectual issues, substantive issues and economic issues, even when I don't agree with you. I believe that that is right. But this is really embarrassing a member country just because you have the immunity of sitting here in Washington under the umbrella of the Bank. If you were in Pakistan you would have been shot".

I said that he was right about this. My emotions had run away with me. If I wanted to take on such a role, I should have resigned from the Bank and I offered to. He wouldn't hear of it and he laughed. He said, "Well, you know Mahbub, I did the same thing myself, whom am I criticizing? When I came to the World Bank, Bob Kennedy was going to run for the Presidency in 1968. He asked whether I would endorse him. He was a close friend, I had always been a friend of the Kennedys. I said, sure. I didn't even think twice about it. Next thing, all hell broke loose. The Board criticized me and said how can you do a thing like this? As President of the World Bank you are an international civil servant and no longer an American". So, he said, "Mahbub, I've done worse things than you, just forget about it. I'll never mention it again".

Asher: And he didn't?

Ul-Haq: And he didn't. But I think we had that kind of a relationship, where he felt that the things I said were not meant to embarrass any constituency of the Bank. I said those things because I felt deeply about certain important issues regarding the international environment or regarding World Bank policies. He felt that this was a genuine role, both within the Institution and outside it.

Many people thought that McNamara was intolerant of dissent and they used to be very afraid of him. I'll tell you one thing Bob, which I came to appreciate because I worked very closely with him. McNamara used to feel really challenged by dissent. In a large meeting, he may have shouted down the person who was dissenting from him, he would show intolerance because he would like to dominate a meeting and he would never like to be challenged. The time for dissent was one to one, quietly in his office.

The most interesting moments I spent, and the ones when real policy was made, were those when he called me into his office and gave me sometimes three to four hours and we just sat there and talked about things. At that time he liked to be challenged intellectually and would be extremely blunt in his language, but basically he never held anything against you. In fact he loved the fact that there was a real dialogue. I don't recall that at any time just disagreeing with him on any issue would annoy him. But his annoyance would come with people in meetings because he did not regard meetings as a discussion forum. He regarded one-on-one, just as we are sitting here, as his discussion forum, the policy forum. This was his policy review committee, with me and with many others on that basis. He would get Ernie Stern into his room on that basis, or Qureshi, or Cargill or others and talk to them. But not in a forum. In a forum he was there to hand down decisions which had already been made.

Asher: But then did he expect these people to go back to their staffs and somehow use those staffs as structured pieces of machinery to do something? Or would you have a lot of ad hoc assignments? You got involved, for instance, in answering inquiries for the Brandt Commission. You may have been involved in planning the probable demands of mainland China which were to be in competition with your homeland and with India. To what extent could you rationalize and make a staff function out of many of these things? I suppose you could out of country allocation and sector allocation problems, at least in so far as how much performance, need, absorptive capacity, etc. should be taken into consideration. But many things must have been so much between you and McNamara that it surely would be difficult to keep a staff properly informed, even supervised.

Ul-Haq: You are absolutely right. I think, people like McNamara are never institution builders. They personalize decision-making so much, they also personalize policy dialogue so much. They use the forum more as a cover, rather than as a real forum for decision-making, so that a lot of the real work does not get institutionalized. In fact, a good deal of staff were in the dark about how the real mechanics of the Bank worked and McNamara had all the channels. After all, I didn't know about the dialogues which he had on a one-on-one basis with others, although I knew a lot of those went on just by talking sometimes to others.

Asher: And they included discussions with outsiders like Barbara Ward, a mutual friend of ours?

Ul Haq: Yes, very often. Barbara Ward influenced his thinking tremendously. Maurice Strong was another person who used to come and stay with him and at dinners and breakfasts they discussed a lot of policy issues, which I would then get second hand from Maurice Strong. He would discuss things with David Rockefeller. He would discuss things with a whole lot of people. In fact, he spent a lot more time with outside Bank people than with Bank people. He communicated with Bank people, often not verbally, but through the written word. He wanted everything to be distilled in a one-page memorandum or in terms of tables which were reduced to a page. He had a tremendous communication flow and reporting system of the kind I haven't seen anywhere else.

Basically, his communication with the staff was through the written word. I learned that, often in order to influence McNamara, to get to him, I had to get a memo on his desk, whet his appetite enough to get into his office, and then discuss it with him for two hours, if the spirit moved him. But, he did give a lot more of his time to meeting people from outside.

Asher: But this can be a plus. You are now a Minister in your own country and you must find the same problem too. You have to face the fact that there are legitimate reasons for listening to outsiders and communicating with them. Have you, in a sense, followed his prescription?

Ul Haq: Yes, I have followed his prescription because I thought that it was great. In Pakistan now, in fact, I have kept all my afternoons earmarked for listening to people from outside because the perspective is so different. It is so easy, Bob, in an institution to be mesmerized by its own inner mechanics, to become very inward looking, to lose a sense of vision in the day to day work. McNamara's great virtue was that he could do both, he could run the Bank from day to day, in a very centralized fashion and yet he could keep his head above it and think of many initiatives.

A lot of his initiatives came from his talking to people from outside or from talking to some of us in those one to one meetings. They seldom emerged in any of the broader forums of the policy review committees or in any management discussions. I think that is probably a good way of doing it. After all, if there is a Bank which has professional people in it, and let me say I think it is the finest professional organization that I have had the privilege of knowing, those people can handle functions at all levels. I think if there was a fault in McNamara, it was that he did not delegate enough decision making to them. They could have handled a lot more and they should have been involved a lot more in discussions with him.

The fact was that he wanted change and he had to harmonize a number of constituencies to marshall this change. So I think it was right that he spent a good deal of his time with people from outside. He travelled a lot and whenever he travelled the same philosophy dominated him. He was very impatient of spending any time in the capitals of developing countries. If you look at his travel schedules he would spend a day or two in them and then he would get out. He regarded that as ceremony. He knew what he was going to be told, he knew that there were going to be set pieces, he knew that they would build up their performance. In any case, he had read up on the country's performance and knew more than any of the ministers as to what the macro indices and the micro performance were. He spent a good deal of time looking at the population planning clinic himself, or looking at the fields and the use of fertilizers there and talking to the farmers. He would take interpreters along and communicate.

Asher: Now I know from the pictures I've seen, or maybe it's just who is standing in front of the camera, that William Clark was often with him on these trips. I take it you were at home minding the store during much of that time, because he didn't travel with a large retinue, did he?

Ul-Haq: No, his style was to take his special assistant to work on the mechanics of his travel and William Clark, who was his eyes and ears on these issues, both within the Bank and outside. I think William Clark's relation with McNamara was a very unusual and unique one.

William Clark was not ever used in the substantive sense, not that I'm saying that he couldn't contribute in a substantive sense, but he was not used by McNamara in that role. McNamara always looked to him to siphon various views from his staff as well as from outside; views which those people wouldn't have had the courage to present to McNamara directly. Many people would go and whisper things to William Clark which otherwise they wouldn't have said or for which they wouldn't have had access.

William Clark performed a very useful role. He would go and tell McNamara very bluntly that he was absolutely wrong on an issue and his staff was totally dissatisfied. I've seen him perform that role in my presence. I've seen him convey bad news to McNamara. I've seen him take a lot of reprimand from McNamara and then laugh it off because he knew that this was his role and McNamara was very fond of him. He was very intolerant of criticism, but he wanted William to bring nothing but critical views to him from all over, so he could glean them.

Yet, William had skill because he knew, knowing McNamara's temperament, that he could not only be the bearer of bad news and criticisms. While he had that role and wanted to keep the dialogue open with McNamara, he also had to keep reassuring him of the good things which were happening. So he played that very well and I think that many people didn't realize the kind of role he played. I knew William very intimately and I'm very fond of him.

Asher: He loved the association with McNamara.

Ul Haq: He did love the association. You know, we used to kid William, by saying, have you ever known someone who belonged to the bottom 40% and what would you do if you actually met one? William knew all the famous people in this world. At least, that's the way it came out from him. But if McNamara, wanted, for instance, to dominate the Brandt Commission and choose the people personally (McNamara was very upset about some of the choices that Brandt wanted to make), William would go and tell him that this approach was totally wrong; that already there was an image of the Bank dominating the Commission, people saying that the Commission was a creation of the Bank etc. William would let McNamara know that he ought to leave this one well alone. On other occasions, he would go and tell him that much of his staff did not really believe in the poverty thesis and that the thing was McNamara and Mahbub's favourite toy.

Asher: Did the Redistribution with Growth publicity and so on come up in a kind of separate channel while you, as you described it, in your early days here, were trying to rethink your own experience and come out at what seems to me a somewhat different point? How were these reconciled or were they reconciled?

Ul-Haq: Yes, I think Hollis Chenerey, who was the Economic Advisor to McNamara, at first resisted the swing towards poverty lending.

Asher: On traditional grounds?

Ul-Haq: Yes, on traditional grounds. He felt that we had not considered sufficiently the trade-offs that were involved. In the short term, if we had more distribution, it was going to affect growth and there were very large trade-offs between growth and distribution. Over the long run, high growth rates do create their own distribution, so he was very much a believer, for some time, in the filter-down theories. He felt that maybe the initial conditions were not right for filter-down and that those conditions could be improved a bit.

Asher: Including taxation and so on?

Ul-Haq: Including taxation, distribution of land, maybe education. He would give the example of Korea and other examples where high growth had been consistent with better distribution. He said, "Don't blame economic theory for the initial conditions, which may not have been set right, but let's focus on those conditions". He was very impatient with talk of focusing on target groups like the small farmer and other vulnerable groups in society. He felt that was a boy scout's approach and that it could not work in the growth sense for you don't compartmentalize the economy in that fashion. I think later on, when he saw McNamara's forcefulness on this issue, he felt that he had to provide some conceptual framework for this, to see how the two ends of economic theory and practical policy could meet. It was that search that led to a collaboration with the Sussex Institute and to Redistribution with Growth.

I think that in a way, redistribution with growth was an afterthought, an ex post rationalization of what McNamara wanted to do and it didn't quite satisfy McNamara. It gave him some intellectual underpinning which he wanted, in order to make the concern an academically respected one. But he never felt very happy about it because, after all, redistribution with growth was still growth economics with better initial conditions and a better distribution of assets (education being regarded as an asset as well) and it was really a rationalization of the experience of countries like Korea and Taiwan. It did not give the underpinning for McNamara's focus on the small farmer for instance, nor did it answer the question of whether one could focus directly on certain groups and fashion delivery systems and all the policies for those groups.

The basic needs approach that Paul Streeten, I and others started developing was focused very directly on both the poor groups and certain specific needs, and whether these could be produced through strategies which could shorten the time in which people could get them; and on whether these would be more efficient if our objective was both growth and equity. Chenery never accepted the basic needs approach. He was extremely unhappy with it and in fact, he wrote one of the first papers on this and he wanted to bring it to McNamara and to the Policy Review Committee. He just wanted to stop it.

Asher: You were technically reporting through Hollis?

Ul Haq: I was technically reporting through Hollis. But the way it had always worked with McNamara was that he encouraged me to come directly to him. This did make for a lot of institutional and bureaucratic unhappiness which I regretted because I had a tremendous regard for Hollis as a creative mind. We disagreed on many issues, but that didn't mean that I didn't admire him as having one of the finest minds on this issue.

But McNamara was far more enamoured of the basic needs approach. He wanted short-cut solutions. He was a practical man. He could identify himself with something specific. He could understand when you were talking about delivering a primary health package, a primary education package, a potable water package in the villages, or some other basic needs, in a cost effective fashion, in a short period, through a delivery system which could be replicated. All that he would question us about was whether it was possible, whether it could continue, and which institutions were assisting in it. He would bring it down to the minutest operational detail because he felt that Finance Ministers and Development Ministers all over the world work that way and not from a macro framework.

Asher: Did the questioning of minutiae, which turn out not to be minutiae, include the Bank's project approach? That seems to me to work against short and quick solutions for all the reasons you know the length of time it takes a project to get through the pipeline, the slowness of subsequent expenditures, and a lot of other things that make it difficult to obtain the impact at the time you have the rhetoric and want to deliver a result. Was this a worry to McNamara? Or has it been to you? Let me put it the latter way and then you can move on to anyone else you want.

Ul Haq: I feel that very minute questioning of detail was a necessary part of making us think a lot more professionally about these issues. I often felt that even when McNamara was totally convinced of a certain course of action, he would badger you deliberately, almost make you scream, in order to make you think concretely and professionally about an issue and to clarify various choices and options. He felt that this preparation was very necessary if the thing had to be reduced to the project level.

Now, I think to some extent, the project bias of the Bank was a handicap in this because you cannot projectise a lot of the concerns which cut across a whole vulnerable group and which may mean delivery of multiple packages; not just non-formal education, or a bit of nutrition, or a bit of primary health care, but all of those things together. So you don't really run it as a project, it is really an area development or a people's development broadly speaking. I think McNamara came to terms with this in his own peculiar fashion. He tried to loosen some of the constraints on the institution; for example, he did loosen the definition of a project.

Asher: That was a continuation of a trend that had been going on, wasn't it?

Ul Haq: Yes, it had been going on. The project became a looser and looser concept. We could call a whole village development a project, including a lot of various elements in it. We brought in integrated rural development programs which included about ten different activities in a spatial sense, focusing on a certain vulnerable group. So that was continuing the previous process of loosening the project definition.

Secondly, he brought in a lot more local cost financing than before. I think we didn't ever talk about it very openly or belligerently because he was very apprehensive about the Board and others feeling that we were doing a lot of program lending under this umbrella. But frankly, the local cost financing that went on under the umbrella of some of these poverty projects was extremely high. In many projects where we financed 60% to 70%, most of it was local costs.

Asher: And the government then had the foreign exchange from the Bank loan?

Ul Haq: So, the government had the foreign exchange and flexibility in using it. In fact, in this institution, over these thirteen years, local cost financing was a far more dominant force than program lending any time.

Asher: Well, in the book that Ed Mason and I wrote, we tried to treat them together, local cost financing almost as an alternative to program aid.

Ul Haq: That's right and that's what was loosened up more and more in these projects, where we went up to a very high percentage of the cost of financing, in some least developed countries we went up to 90% financing and most of it would be local costs.

Thirdly, I think he always felt that the Bank's money was going to be a small part of the total development of these countries. He felt that the signals that we set on this issue and the policy framework that we brought in were far more important than trying to do all of it ourselves. After all, the Bank's total lending to developing countries financed roughly less than 1% of the development expenditures of these countries. He was very uncomfortable with this figure, but I kept mentioning it to him all the time. I tried several times, unsuccessfully, to put it in one of his speeches to show that the Bank was not the world, but he felt very uncomfortable and would take it out each time.

However, he understood that 1% can not change the profile of poverty in these countries, except by setting the right signals. That's why he put so much emphasis on economic sector work, on his policy speeches, on country dialogue, and on signals. Projects were just a part of it and as I said, he tried to loosen that structure, although not as much as many of us wanted. I think the logic of all this would have been to go far more honestly and directly to program lending in many countries in support of poverty; not in support of balance-of-payment adjustments, not in support of some other tough fiscal

measures, but in support of poverty and he should have adopted a lot more program lending. I don't think he felt that he had support in the Board, that he could get away with it practically, so he kept the project words, while loosening the definition of projects.

Asher: Well, by the middle of 1981, I don't remember just when you left the Bank, the Bank had accumulated a lot of experience with projects. But they were new style ones, defined, as you have said, somewhat more loosely than the traditional, early definition of a project. Having had almost a decade of experience, the Bank decided to set up a taskforce to look at its poverty focus. You were a member of that taskforce but, I think, you left before the report was completed. It was completed in early 1982. It was endorsed or discussed and backed by the Executive Directors, who said that the poverty focus should remain a key feature of the Bank's overall development lending strategy. So the Bank apparently continues to be committed to the poverty focus, though I noticed in the report that the term "basic needs" isn't used once except, possibly, in a footnote. Did you really expect that, after McNamara, the Bank would be committed strongly to the approach that you, he, Paul Streeten and others including Hollis, who's no longer with the Bank on a full time basis had done so much to establish?

Ul Haq : Well, I had my doubts. I left partly because of those doubts and partly because there was a very major challenge and opportunity for me in my own country. I'll be very honest about it. When I had my first meeting with the new President, Mr. Clausen, in the first week of July,

Asher: This was in July of 1981?

Ul Haq: That's right. He came on the first of July and we met around about the sixth or seventh of July, in the first week, to discuss the future policy signals of the Bank, his policy message in his first annual speech, as well as a whole range of other issues. It was a small meeting of the top management which included Ernie Stern, Moeen Qureshi, Hollis Chenery, Munir Benjenk and myself. We discussed the question of what were the first priorities of an incoming President. I urged at that time that the staff and the world needed a strong signal from the new President as to whether he would reaffirm the poverty focus of the Bank and the continuation of these policies.

I suggested he could have a very candid review of what had been achieved, as to whether our implementation was far behind our rhetoric and what modifications were needed, but I suggested that he owed it to the staff, to himself and to the world to indicate that the poverty focus would continue to be the priority in our lending program. I said it was especially important at that time, because many developing countries, pressed by financial needs, were making very difficult choices between current concerns of financial adjustment and long term concerns of the poor people. It was also important because of structural adjustment lending whose focus was on the immediate adjustment to the energy crisis and the balance of payments and was not very distinguishable from the extended fund facility of the IMF. The countries were confused as to what our signals were going to be.

Mr. Clausen's reaction at that time was that it did not figure in his thinking at all.

Asher: You mean the poverty focus did not figure?

Ul Haq: Yes, the poverty focus. He had been given many versions of this by Bank staff whom he had met individually. Many of whom had suggested that the poverty focus was just a thin veneer, that it had never become the real policy of the Bank and that the Bank had not done very much in lending directly to the poor people or in increasing the productivity of the poor. Bob, I must say it pains me to say this, but I will be honest with you, each and every one of the people sitting around that table said that McNamara's rhetoric on poverty was never the policy of the Bank. It was only Mahbub's and McNamara's concoction.

So, I challenged my colleagues around the table and suggested that it was true that some activities which had been going on before might have been relabelled as "focus on poverty". It may have been true that our rhetoric was often far ahead of reality, although McNamara did regard this as a necessary condition for change, to change the signals, to change the policy framework. At the same time, however, it was also true that the content of real lending had changed: that compared to the 5% to 10% of lending which was going into sectors increasing the productivity of the poor in 1970, it was at least 35% or over by the time McNamara left.

Even this was not the true measure of the impact that the Bank had had on developing countries. The true measure was that many developing countries in their own development plans, in their own investment priorities, had made a tremendous change, not just between various sectors of the economy and between the resources devoted to the small farmer and others, but they had made a change within sectors. Many countries were making choices in favour of primary education as against higher education, primary health care as against expensive, curative facilities, because of the pressure we had put on them through our country dialogue and through McNamara's forceful policy speeches on this subject. We had created constituencies for change all over and the Bank had played a useful role, so why disown it now?

I must say, I never felt more uncomfortable in the Bank than on that day because I was beleaguered. We had a meeting for about, I think, four or five hours about this issue and others. I felt that the new President had a number of admirable qualities. He brought a no-nonsense approach to the Bank. He understood finance. He was worried about the financial base of the Bank and I felt that he would bring more realism to how it could be strengthened, particularly in the capital markets. I also felt, that probably he would have much better relations with the U.S. constituency. But despite all this, I felt uncomfortable on a number of points and this discomfort increased in the ensuing months.

Firstly, that he did not understand development and particularly he did not have that commitment to the poverty focus.

Asher: Excuse me, but there was an interview with William Clark in one of the Bank's publications in which he said that McNamara did not understand development when he arrived at the Bank and I guess, in a sense, nobody understands it until he gets deeply involved. Isn't this an extenuating circumstance or did you feel that the way he didn't understand it was ominous?

Ul Haq: Yes Bob, there you may be right. Maybe I was impatient. I did not see McNamara's initial difficult period. He came to the Bank in 1968. I gather he had a rough period initially. I arrived exactly two years later, in April 1970. By that time, even though I had a rough passage with him, I felt the force of his personality, his open mind and his intellectual vigor. He had done his homework over those two years. He was prepared to argue about issues intellectually and that was always the kind of thing that I could appreciate. I could lose an argument, in fact, I have often modified my views after talking to him, but he would meet you head on intellectually.

Here I felt that I was not having the same kind of response. Also, I felt that the new President started out, at least, by being very convinced that the only constituency that mattered was the United States. He made that statement about ten to twelve times in the first meeting, which echoed around the table. I kept arguing, again I found unsuccessfully, that the Bank was an international institution with multiple constituencies; that it was a very adroit and very skillful balancing of constituencies which got us change; that even when we wanted to cultivate the U.S. constituency, we had to bring pressures on them from the Europeans and from the developing countries, that it did help to raise issues which were developing countries' concerns. I was told that I had been too belligerent on the North-South dialogue and on developing countries' concerns. I had annoyed the U.S. a lot on some of these issues and I argued that it was all in the interest of the institution. And that was exactly the way I liked to run the policy planning staff, not only myself, the policy planning staff as such, because that was the role that we should be playing, of seeing how the various concerns were articulated because ultimately then the President has a free hand in balancing all these various things.

I remember, I even used the argument that McNamara treated the Bank like an orchestra. Sometimes, he would deliberately encourage us to go and ask the drums to play a little louder and sometimes the pipes to blare because ultimately, like a Band Master, he liked to put all this discordant music into shape and say, "Look! Now I can give you a solution that can harmonize it all". These are useful roles that should be encouraged.

A few months later, I had other experiences which made me rethink the question of whether I should be associated with the Bank. I always regarded my freedom of thought and freedom of expression to be my most valuable asset in the Bank and outside. I had, maybe, a very unusual indulgence given to me by McNamara, which is not given in every institution. I enjoyed that before, too, in Pakistan, when I spoke, as a member of the government, against the government, on the whole issue of the concentration of wealth in the hands of

twenty-two families and this issue brought down the government. In fact, I've done this now. In going back, I have talked freely about not what we achieved in the last 5 years in Pakistan, which is a good growth record, but how fragile the base of our development is in our social sectors. I've always felt that people serve institutions much more faithfully, more loyally and more seriously, when they have the courage to express their views, even at the risk of their careers. I have never made institutional success a part of my objectives.

Asher: You mean personal success, not institutional success?

Ul Haq: I mean career success, personal success. I have always felt identified with certain objectives, with a certain institutional development, but I was not concerned about whether I would get any gain out of it in the process. I can tell you now what I think only my wife knew. In all the period that I worked for the Bank, I always carried a typed resignation in my pocket to offer at any time when pressures were brought to bear on me. Luckily, I did not need to use it. I came close to it, as I indicated to you earlier, in 1977, but I realized it was because of my own mistake at that time, not because of any pressure that McNamara was unnecessarily putting on me.

But here something happened which I greatly regretted. There was a discussion of North-South issues, as you know, at the Cancun summit. I felt that the Bank should take some interest in it because after all, the issues of IDA, Bretton Woods and foreign assistance were going to be discussed there. In fact, the last thing McNamara did in office, I remember, on the 30th of June, was to sign a letter to Lopez Portillo on the Cancun Summit, offering various ideas and suggestions which Lopez Portillo had asked for from McNamara in a personal capacity and we thought that it was important that they should be given.

Of course, I couldn't persuade Mr. Clausen that we should take any interest in the Cancun Summit whether on this issue, or on the energy affiliate, which was coming up there. As you well know, twenty-one Heads of State out of twenty-two supported an energy affiliate for the Bank, but he didn't want us to take any interest, to do any work, or to have any participation, directly or indirectly, in the Summit.

But what really bothered me was this. At that time, as Chairman of the North-South Round Table of the SID, I was also in touch with Lopez Portillo, who asked the North-South Round Table to organize a small group to come there in a personal capacity to talk to him for two or three days and give him ideas about what could be done concretely at Cancun. We felt this was a tremendous opportunity. As you may recall Bob, because you have been associated with me in SID and also on Round Table activities, we took a group consisting of Maurice Williams, Maurice Strong, Dadsie, Enrique Iglesias, Robert Triffin and Drag Avramovic and a few others, a diversified group, to talk about the agenda of the Cancun Summit. I was very careful to take leave from the Bank.

Asher: Was it only with the Mexican officials, with Lopez Portillo and others?

Ul Haq: It was not a public affair. It was totally with Mexican officials, with Lopez Portillo joining in for two days of discussions and private consultations. I took care to take annual leave from the Bank and went there at the expense of the North-South Roundtable, or rather at the expense of the Mexicans who financed it. I thought we played a very useful role in articulating some of these sensible issues which could then become an agenda for the Cancun summit. I thought I performed a very useful role for the institution because I urged the idea of the energy affiliate, also support for IDA, and suggested other things that Lopez Portillo could put on the agenda. Mr Clausen was away from Washington at the time I went to Mexico. I had briefed Munir Benjenk who was in charge of External Relations about this activity and he said, sure, you have done it in the McNamara era officially, now you are doing it on your own time, there is no question about it.

I came back and Mr. Clausen asked for my explanation; how could I do this when he, himself, had not been involved in the Cancun Summit? When I told him that I was doing it in a personal capacity, he made a remark which I think he believed in very strongly and I respect his philosophy. I disagree with it violently, but I respect it. What he said was that when you are in the service of the Bank, there can be no distinction between an official capacity and a personal capacity. Nobody has a personal capacity in the Bank. He followed up his philosophy by telling even the External Relations Department that those articles which appeared in "Finance and Development" where it was indicated that these were the personal views of staff, by saying, I can never believe these are any personal views, you can not have any staff having personal views and a directive should be issued to the staff to the effect that they can only have official views which have to be cleared first in a forum.

This happened in October 1981. At that time my Government had already approached me several times in the few previous months. In fact, they had been wooing me for the previous five years to come back to take charge of the Ministry of Planning and Development. I was then asked even more forcefully, because people knew about my unhappiness over the developing trends in the World Bank. I decided to accept. It was partly a combination of what I saw as the future direction of the Bank and partly what I saw as a tremendous opportunity to be useful, because I felt I could make more of a contribution to my country at this stage than I could do in any case in the international world, even if the environment had been better. It was not just the presidency of the World Bank, or whether its direction would change, it was that the whole international environment looked so constraining. It was not at all the kind of open environment of the 1970's in which I felt happy and satisfied professionally and I was getting a more unconstrained environment in my country so I chose to go back. That's the whole story.

Asher: When you went back and looked for the thirty million absolute poor in Pakistan, the number I think the Bank had bandied about, were you suprised at all by what you found?

Ul Haq: Yes, I was. I think that is one of the problems of sitting in institutions and looking at things from afar, sometimes you can lose touch with the reality on the ground.

Asher: At least at the micro-level?

Ul Haq: Yes, at the micro-level, because, of course, we were very much macro in our thinking here. In the last nine months I have spent in Pakistan, the thing I have enjoyed most is the micro-level where the real heart of policy making is.

Now, as to the thirty million absolute poor, I found that there was not much absolute poverty in the sense that we define it as a deprivation of basic needs, particularly in nutrition. The nutrition level in Pakistan, according to the studies done by us and others, is among the highest, not only in South Asia, but among other developing countries, with a given incidence of about 4% malnutrition. In fact, you can just go around now and see the difference.

Twelve years ago, you could go into the streets of Pakistan and there was obvious poverty all over. There were beggars, people who were malnourished, children who were running around naked and people without shoes. The manifestations hit you in the eye. Now, since I have not only a technocratic, but a political role too, I have travelled extensively all over the country and in the villages. People are well fed, nobody is without shoes, whereas previously you could hardly find anybody with shoes, many people have their own bicycles, their own scooters and their own Suzukis. So that in a way, these remittances which came from the Middle East...

Asher: That's what I wanted to ask. This was not really entirely due to wise policies on the part of the Government, but in part to foreign demand for Pakistan workers, wasn't it?

Ul Haq: The poverty reversal in Pakistan was really a windfall rather than a result of deliberate policy. I am worried because it happened as a result of three billion dollars a year of remittances from workers who came from poor families and the Government has been lulled into complacency, thinking that the income distribution problem is not that bad. Unless future growth is watched again, the same kind of problems of maldistribution of income and certainly of uneven distribution of the benefits of growth may arise. Also, there are two things which bother me, one is that remittances are slowing down, the dynamism is no longer there because our balloon is over.

Asher: Are the workers returning?

Ul Haq: Some countries have put pressure on them and there is now more of a return of the workers.

Asher: How many are involved, do you estimate?

Ul Haq: Anywhere from one million to one and a half million. Officially, one million went, but many people went illegally and recently Saudi Arabia and some other countries rounded up the illegal immigrants and sent back a few thousand.

The demand for labour is not as robust now in the Middle East as it was before. The development programs are slowing down.

The second thing is that while it is true that this took care of some of the obvious basic needs of society, it hasn't taken care of the public good. As far as education in Pakistan is concerned, we have 24% literacy. We spend one fifth as much as other developing countries on health care. Potable water is available to only 20% of the population. Only one fourth of the villages are literate. Roads are often non-existent, particularly in rural areas. So, the public services that these people now demand and which are part of the basic needs package, broadly defined, have to be the next round of things to be done. However, they can come only as a result of deliberate policy, not just out of remittances, even though remittances can help finance some part of it on a participatory basis.

Asher: They can also create an unsustainable demand for some consumer goods that would not have a high priority in a developmental sense, I suppose.

Ul Haq: That is our worry. The first burst of remittances has gone into non-income creating assets; either it has meant more luxurious housing than the thatched roofs that they used to have before, or it has meant a lot more of those durable goods which they can't even consume now because many villages don't have electricity. It is a strange phenomenon, you will find refrigerators, VCRs and airconditioners stored away in one part of the house waiting for electricity to come. Pressures for electrification have increased a lot and our fear is that they may go into consumer goods rather than using electricity for tube wells.

Asher: But not having electricity is an incentive to get it. You are under pressure to produce electricity and when it's there, you have the chance for tube wells and other things.

Ul Haq: Yes, I think what is happening now is that gradually, as a result of the pressure they are coming under in the Middle East, these workers whom we think of as probably not intelligent economists, that can't discount the future and so on, they are very shrewd people. I see already a tremendous change coming in attitudes. They are coming round to acquiring income earning assets. They don't understand investment schemes, or that we have investment houses. They want to know if their money will be safe and if they should put it there. They want to know why they can't get a piece of land and cultivate it. They want to know why they can't get a tractor and why we can't remit duty on it so that they can run the tractor there. Their demand for private tube wells has increased all over, to the extent that we have given up the program of public tube wells because they are willing to pay to have them sunk on their own lands.

So, I think it is true that people respond to pressures. As the situation is changing, they are looking ahead. The windfall may not last. The Arab countries have started to worry that maybe they have spent their petrol dollars too quickly on things which have not created assets. They are looking at the example of Kuwait which went the other way and is doing well.

In Kuwait, investment income now exceeds the royal income and oil income is half of what it was five years ago, but the loss is more than made up by investment income. I think the lessons of all this are not lost on people who are working there. There is a chance now to divert these remittances into more productive channels through a proper policy framework.

Asher: I suppose another lesson, which is constantly driven home, is the ingenuity of people when, in a sense, they get a chance to exercise it. I think in this week's "Time" you were cited, or the government is, in its desire to liberate the populous from some of the restraints that have held down the initiative before. Is this part of the policy?

Ul Haq: Yes. We are going to undertake one of the most sweeping de-regulations of administrative controls which will open up all areas of investment to the private sector, not only industry, which has been under various administrative controls, but also some of the sectors traditionally reserved for public intervention; like transport, building up our highways, our airlines, or oil and gas, our energy sector, our thermal stations. We are now going all out and inviting private investment into this on the basis of a very attractive set of terms.

I think that in Pakistan, as in many other countries, there is a tradition of rugged individualism. I think in that sense, if I may go back to one thing that I admire about Tom Clausen, is the emphasis he has brought on the private sector. So long as it is kept in perspective and so long as one remembers that in these countries the public sector has a genuine role to play in education, in health, in providing infrastructure and a lot of activities which the government sector has to handle. But I think that it is refreshing to emphasize the tremendous creative energy in the private sector which has been shackled for too long in many developing countries and even internationally. Whole new innovative ways of mobilizing these energies and financing have to be undertaken. I have witnessed it myself. Normally, I'm regarded in the developed countries as a raving socialist, back home I'm regarded as a

Asher: As a dangerous capitalist?

Ul Haq: Oh, my God, much worse. There was an editorial recently saying that, it appears Dr. Haq has been sent, especially by President Reagan and particularly President Clausen, to bring back the private sector and capitalism to this country. We were told earlier on that he came with a sense of disillusion with the international environment. Now we realize that it is part of a very dark and well-hatched conspiracy.

I told Tom Clausen about it the day I met him. I said I must send you that editorial it will delight you. But I think the emphasis he is bringing to this is correct. I resent only some of the excesses of this. Some people, not Tom Clausen who understands the role of the government, but some people go so far as to suggest that the logic of the market place, or the magic of the market place, should take care of all problems, including the problems of the poor, when it actually means sending the poverty programs into cold storage in the name of the market mechanism. That is hypocrisy. I do believe in a pragmatic choice here.

I have discovered sectors in Pakistan where, if we unleash slightly the forces of individual creative energy, the results exceed all expectations. I've seen how much participation there can be among villages in nation building activities by people who were totally uneducated, simply by involving their energies in it; activities from schools to hospitals to electrification and certainly in terms of fruit, vegetables, poultry, the new emphasis on food exporting that we have in Pakistan. You just need to give them the right policy package, the support prices and the signals.

I hope that the Bank can further develop that aspect but not as an ideology. It would be so good Bob, if the World Bank would now carry out in-depth studies in some of the countries to see where the real potential of the private sector lies and what is needed concretely to unleash it. If they did it in Pakistan, I can tell them one thousand ways which I've learned during the last nine months by working with people. Yet, the way it comes out at the moment is as rather a belligerent ideology and people react very much, even though they shouldn't.

Asher: You mentioned talking to Clausen. You deal with the Bank still and deal with it in a different capacity. You are now representing a potential borrower. I take it you also deal with other so-called donors.

Ul Haq: Yes, with donors, with consortium countries, because aid negotiations come under my jurisdiction.

Asher: Do you find the Bank easier or harder to deal with than other sources of finance, or both, and in what respect and with what consequences?

Ul Haq: I must say that one of the admirable characteristics of the Bank has been that they deal with countries on a professional basis, not on a personal basis. I may have a lot of friends here. I may have a lot of foes here. I may have had a lot of misunderstandings here on many issues, but I must say, that has never really affected the kind of dialogue we have on a country basis with the Bank.

We have had discussions with Tom Clausen. Last July, I came on behalf of the government to discuss aid issues, IDA and IBRD. At that time, I pointed out to him that we were getting very little this year by way of IDA, half the previous level. I asked why. I was told about the many constraints on the total size of IDA. Now, this is where the fact that I spent a lot of time here really helps. Since I'm knowledgeable about what the situation is, how our allocation exercises work out, what the share of Pakistan should be in relation to other countries, I used that inside knowledge. I said, but I think it should not be a hundred million dollars, it should be close to two hundred million dollars. Mr. Clausen laughed and he said, the trouble is that you know too much about the Bank. You have not been gone long enough. We haven't changed our formulas for allocation. Ultimately, it was adjusted upwards to one hundred and ninety million dollars which was close to the figure that I wanted.

Asher: Close to hundred and ninety, you said?

Ul Haq: One hundred and ninety from one hundred. I am very appreciative about that. I've been very appreciative about the support from the Bank President and the support from the South Asia Department which David Hopper and his people have given us on the sixth Five Year Plan. The country dialogue and the sector dialogue that we have had with the Bank could never be better. I was pleased when two days ago I was talking with Michael Wiehen, Director of the South Asia Department, who is now acting Vice President in the absence of David Hopper and is dealing with us, and I was asking him how he rated the relationship with Pakistan. So he said, look I'll tell you. Tom Clausen is going to call on your President on the 6th. of this month, or rather the 6th. of next month.

Asher: Is this next Monday?

Ul Haq: That's right, it's the 6th of December. He said, in the brief that we have written we point out that previously there may have been some sensitivity about Pakistan accepting World Bank advice as to what kind of technical assistance we could offer. Now the situation is that we don't have to go and offer our ideas. We have somebody there in the Planning Commission who keeps using our staff as part of his Planning Ministry. Someone who keeps asking for ideas all the time. I may not like them, I may reject all of them, but I want a ferment of ideas and the thing is working more smoothly for Pakistan than we have had with any other country. So, Bob, I separate completely my own past association with the Bank from the country's association with the Bank because I think it's important that that dialogue should be totally along professional lines.

Asher: But it helps to know how the Bank works, doesn't it?

Ul Haq: Certainly it helps to know how the Bank works and that has been a great asset. Also, I have made clear in my discussions with the President of the Bank and other colleagues that I am going to use all the freedom that I have to talk about this institution's total policies, whether on IDA or on IBRD, like I did in Tokyo and also at the North-South Round Table recently, when I talked about the restructuring of Bretton Woods, about the convening of a second Bretton Woods conference. I have made clear that what I say should be taken in the same light as before. I talked about these issues when I was part of the Bank. Now, I am going to talk about them in the same spirit of bringing pressures for change and I am going to debate issues on their merits. It should not be taken that I am using the advantage of being the Planning Minister of Pakistan to attack the Bank from that safe distance. I hope that distinction is kept. So far, I must say in all fairness, the Bank could not have been more professional and more correct on this issue.

Asher: The Bank, as you well know, is a highly centralized institution. Its staff is overwhelmingly in Washington, with only a tiny percentage of people in the field, but it has had for many years resident representation in

Pakistan and it has always talked as though the policy dialogue was an important part of the Resident Representative's or the Resident Mission's responsibilities. I don't know about Pakistan, but in some other countries I am aware that very little of the Resident Representative's time is really spent in dialogue with high level officials: much of it is spent in legwork for incoming and outgoing missions. Do you have any feel about the advantages and disadvantages of a) the kind of centralization that exists in the Bank and b) the pros and cons of establishing these very small outposts in important developing countries.

Ul Haq: My own feeling is that the Bank's centralization has been a major handicap for its operations. Now that I have got back to Pakistan and we have a very good Bank office in Islamabad, I find that the Bank does not use it as effectively as it could.

Asher: Well, the Resident Mission has no real place in the Bank's command structure, does it?

Ul Haq: It doesn't have a real place in the command structure. It does come in a bit on project negotiations, even though for project appraisal teams go out from here. It is now coming in, under my pressure, on economic reporting on Pakistan and they have been allowed to recruit two Pakistani staff who became members of the team which came to write the annual report and contributed their insights and I think they found them very useful.

The Resident Mission is not given much backing, support or prestige by the Bank and I think that their effectiveness, their utility for us there, depends on our perception of what backing they are receiving from the Bank's management. They have very good people there, but they will be frustrated and they will become useless if the perception is that they are a post office, that going through them to Mr. Clausen or to Ernie Stern or to David Hopper is more counterproductive than to go directly.

This is not a way to run things. I have found the staff at the local level very knowledgeable. They have acquired, during their stay there, a certain feel for the concrete policy issues. They can translate a lot of their professional knowledge to the policy options and the discussions which is what is really helpful to us. They are well regarded by our bureaucracy. I have now given them a lot of importance there by bringing them in for various policy discussions and asking them if there is a question of, for example, user charges or cost recovery.

This is an area where I feel very concerned, myself, and of course it is a whole Bank theology. They have been around advocating it without gaining any ground. I have made it an issue in Pakistan. We can't run our services, whether of health, or education or water supply or canal maintenance or anything else at sometimes 95% or 99% subsidy.

I asked the Bank to provide me with technical expertise to analyse what the real costs of these services are, what the existing cost recovery is, how, in a graduated fashion, we could raise the user charges, what other countries' experience has been in this, and so on, and we are getting some special consultants for this. But the point I wanted to make was that this is the kind of issue the local office could have handled. They have been at it all the time. Their head man, Siebeck, has been taking up this issue in the case of various projects. As they have come up, he has been asked, directed really by the head office, to take up the issue of higher water charges in this water supply project, otherwise this water supply project can not go through our Board. And he pursues that issue. But they are very knowledgeable on this. If we knew that they had the full confidence, support and backing of the head office, if they were used more intelligently, we would use them over a variety of policy issues. Now, what is happening is that on each policy issue I am being sent consultants from headquarters, either staff from Washington or they hire someone special and they take time to get to know the situation. The consultants who came were part of the regular staff of the Bank. They were very good, technically, on this user charges issue, but they were green on Pakistan. They were going to be there for two weeks, which would have been hardly enough time even to get to know what makes it tick, so I told them that they had to stay for at least a month, because for the first two weeks they needed to get to know the issues and that they should let the local office do their education on this for some time, because it is one of the most sensitive issues with which I deal. One of the biggest policy decisions that we will have to take in the Sixth Plan is that of how we are going to adjust the service charges for all our public services.

So, what I am suggesting Bob, is this. Even without being given the real decision making power on the allocation of resources to the country or on the selection of projects for the country which the headquarters want to make here in Washington, there is a whole range of things that the local offices can do: such as being useful in the policy dialogue there, providing the needed expertise there and the country experience from other countries. They have reports sent to them from all countries, so they have a complete reservoir of knowledge and a lot of time on their hands to read these things. But they are not used. It is frankly, the most inefficient way of running a very large organisation.

Asher: Would you make the same comments about the Bank's research staff which is heavily concentrated here? In a sense, it is the major center, perhaps in the world, for expertise on development. However, the staff are without very much continuing exposure to developing countries. They get that exposure, of course, with their travels, but would it be a different kind of research staff if it were a little more spread around?

Ul Haq: Well, for the twelve years that I was associated here, I held a very different view on the research issue. I felt somehow that our nucleus research staff in the Bank should have been kept very small, acting more as catalysts or as pace setters, but not doing a lot of country research work. In fact, I felt we should have institutionalized it in development research institutes in the developing countries.

Asher: Like the Agricultural Research?

Ul Haq: Like that. We could have been selective and that would have put pressure on countries to produce institutes of excellence with which we could associate. But we should have put one or two of our research people there, just like our resident staff. Our success would have been that with that catalytic effect, we would have had a whole big research program within the various countries.

I think the links between our centralized research here and the country research and the real problems have remained very weak. That is why there have been attacks to the effect that it has become academic, that it has become theoretical, that it's more methodological, that the country research work we have done is somewhat superficial, that it doesn't get to the guts of the policy choices that have to be made, that it's not really functional research work.

My feeling is that this whole desire to build a research empire here, to duplicate a Harvard or a Yale, to try to do better than they do, and publish has been very counterproductive. We should have taken this as a service activity, like we take our lending program. After all, the lending program is within the country, we do influence the project design and the project conditions, we do work with the institutions which have the capacity to implement these projects efficiently, but we don't take them over and start running these projects ourselves. Yet, this is what we have done on the research side where there is a lot more of an argument to have indigenous research because it would be more suited to the cultural and to the peculiar patterns of each nation. In the case of lending programs, you can say, well, maybe a lot of the technology is set, many of these things are turn-key projects, in any case much of the wisdom on projects can be standardized. One certainly couldn't say that for a lot of development research work and development strategies. Yet we have had the arrogance somehow, to try to centralize it here, without really having very much outreach. The only outreach that we get is to publish some things and send them out or people go and give seminars.

Asher: Are the things that are published like the World Development Report, the Annual Report of the Bank, the IDA In Retrospect and so on, read in Pakistan and if so, by whom, and do they have an impact?

Ul Haq: Well, let me say very frankly, that they are read and, particularly in Pakistan, there is a tremendous demand for them.

Asher: Are they respected?

Ul Haq: They are respected. The World Development Report is a standard work, not so much for the ultimate policy conclusions that it offers, but for the wealth of information that it has, particularly in the tables. The appendix is very useful and is always detached and xeroxed and spread all over. Whenever the staff in my Planning Ministry have anything to do for example on fiscal policy or military expenditures they can quickly look up a comparison among all the World Bank figures. They can get the Pakistan data themselves, the rest they get from the report.

Asher: Would that be true of the Atlas, too?

Ul Haq: They use the Atlas. I think that the IDA retrospective study was a useful one to see what our experience has been. But what I find most useful in Pakistan and for which, at least at the policy making levels, at Cabinet level or at top, senior-official level there is a demand, are the policy studies which bring out other countries' experience as to how they did certain things. Normally, these are not available. For example, when we were working on agricultural extension, we knew that it had been very successful in India. In Pakistan it was a disaster, and the World Bank had tried to work the same concepts with both countries. I mean the concept which is called T & V, the training and visit program. Anyway, we wanted to have an assessment of this. But the reports which were sent were always on Pakistan, never on India.

Asher: You mean that if you are in Pakistan, you can't get the report on India?

Ul Haq: That's right. I had access to these things here and I knew what existed. Whenever I came up with a certain problem, for example, we are trying a new approach to low-income housing. I know there are reports on Indonesia and on three other countries about this, because I have seen them. But they were not available through the local office. Some selected reports are sent there and I have told them to keep sending everything, because I like to have this kind of comparative analysis anyway. But I have found that our Finance Minister and others are also very keen on this. They want some experience of how these things really happen because, before they commit themselves to a new experiment and burn their options, they want to be reassured by other experiences. One of my suggestions, which would again be a way of using the local offices, would be for them to provide this material.

In fact, if a local office knows that a particular country is wrestling with a certain issue, like low-income housing, or like how to restructure higher education, and the local office knows there have been ten different reports done in the Bank on this issue, they should take the initiative, get hold of these reports, make summaries of them and bring them to the attention of the policy-makers. I am identifying this kind of role for them, knowing the realities of the Bank, where without running against the bureaucratic patterns and the strongly entrenched interest of the headquarters, the local offices could start playing a very useful role in country dialogues.

But I must say, that there is a lot of respect and demand for some of the Bank's publications. I don't think that the advice is accepted. The World Development Report this year, particularly in its agriculture part, was read, discussed and it was disliked. The message that came through was that developing countries should follow more the comparative-advantage path and not worry about food self-sufficiency; they can always earn more through exports and pay for the food imports. As my Finance Minister asked me, what world are they talking about? Here is Europe with farm subsidies saying, for our food security and for everything else, we will give 250% subsidies on sugar which blocks all our markets, while my sugar surplus is rotting here. I can't sell it and here they are giving us this bland advice about exporting our comparative advantage and importing our food grains. They're off their heads.

So, as I said, the information that was there on agriculture, the tables, the growth rates, the experience of other countries was very helpful.

Asher: And probably there was some policy advice that was acceptable, wasn't there?

Ul Haq: Some policy advice. But when I say that these things are very much read and in great demand, it doesn't mean it is also an endorsement of the policy message that is contained there. But they are useful.

Asher: You have to deal with many other agencies than just the World Bank, don't you? Do you put the Bank in any kind of special category?

Ul Haq: I think we have probably the best relations with the World Bank, even though we have very good relations with the IMF, AID and other countries. I think it is a special relationship with the World Bank because of a number of reasons. One is that IDA is still significant in our net resource transfers. We have become net exporters of capital to many other countries. At the moment, Pakistan is paying back eighty cents out of every new dollar we get. If it is not a World Bank dollar, it generally comes country-tied, project tied, with a lot of conditionality, with slow disbursements and the eighty cents that we pay is free flexible foreign exchange that we could spend anywhere, there is not much by way of net assistance.

There are still two sources of major net assistance. For the rest of them, as I said we are becoming net exporters of capital, particularly to the European Community. One such source is IDA, where there is still a very major net transfer and a major part of our net transfer comes from there. The other is now AID which is going to become significant. It's still not that significant. Two or three years ago we were exporting capital to the U.S.A. because there was a hiatus in aid. They suspended aid to punish the previous Government, but they ended up punishing this Government because aid disburses after some time. They had an embargo on aid to the Bhutto Government, that went in 1977. Then the resumption of aid came in 1979, but the pipeline was empty, so the net transfer of resources was in favour of the U.S.A., but now, gradually, the pattern is shifting.

We do enjoy good relations with most countries. As I said, it is a special one with the World Bank because of IDA. It is a special one because of our country dialogue which we value. It is a special one because of the chairing of consortium meetings in which the World Bank plays a very helpful, sympathetic role.

Asher: Was this always true? Were the views always as harmonious as they are today?

Ul Haq: No. In fact, a few years ago, the relationship was very tense. About three years ago, when McNamara went to Pakistan, there was hardly any communication or dialogue on many issues. The chief of the local office, Siebeck, was reminding me of this when I met him two weeks ago at his farewell. He was leaving Pakistan after a three year period there. He commented on the difference, as he said, "Three years ago when I came hardly anybody wanted to talk to the World Bank people. It was the most tense relationship. Today, I am leaving on a high note, not only do they want to talk to us, we are now under such pressure because all the time you keep asking our people to come in and discuss things and do things for you and it is the same all over the Government. Things have improved over the last two or three years".

I don't take credit for this improvement. I think what I have done since I went there in March was simply to open the door much wider. There has been no bitterness about my leaving the Bank because, in fact, I left the Bank with the fondest memories I can ever have for any institution. I really love the institution. I do believe it is the best, most professional institution. I think we can all have differences from time to time on the overall policy direction of the institution, but in terms of our relationship, our dialogue, I have opened it up, to the extent that we have been discussing issues which are sensitive policy issues very frankly with the Bank, sitting around the table, which is my style of doing things, a very open free style. They have enjoyed doing it and we have really a very good professional relationship.

Asher: Well, Mr. Minister, you have given us a lot of time and I hope we can find more time to continue this, but it is growing late today, and perhaps you have already exhausted yourself and described, in as much detail as you wish, the frustrations and satisfactions of your years with the Bank and how the elephant looked to you before you came, how it changed while you were here and how it looks now that you are back in Pakistan. But perhaps you would like to review the discussion and pull it together in some fashion?

Ul Haq: Well, let me say that the World Bank as an institution is perhaps the finest professional institution that can be devised. It has weaknesses, frustrations, sometimes loss in the policy direction, which I have commented on, but basically, I think I prefer to look at the World Bank as a dynamic reality which must keep abreast of changing circumstances, otherwise, it could go under.

The strength of the Bank, as I saw it during my twelve years and as I see it now, has been that it has not been afraid to adjust its policy framework, its thinking, its style of management as it went along and as pressures arose. And that comes out of the professionalism that it has. After all, ten years ago, many of the things which we talk about now as acceptable policy in the Bank would have been regarded as heresies.

Today, as I look forward in the 1980's, I believe that the challenges it faces are three or four and its success will depend on how it copes with them. Firstly, somehow the World Bank has to create some sources of financing which are not totally linked with bilateral goodwill, because the bilateral goodwill of nations can fluctuate.

Asher: Are you referring primarily to IDA?

Ul Haq: I am referring to IDA, even permission to float IBRD bonds, because Government permission is needed at the moment as a control. I believe there has to be some de-linking of this control. I believe it is in the interest of the Bank to revive the SDR link, to revive the idea of some international sources of finance, to revive the idea of some ways of collecting international taxation, ocean-bed royalties or other means, because over time the Bank will have to diversify its sources of finance from purely bilateral to something which can be genuinely international.

Secondly, I believe that the Bank should try to get away from its exclusive project bias. The realities are changing in the world, requiring more program lending, more lines of credit, more policy dialogue. The Bank has a very small window now, its structural adjustment lending, which is almost indistinguishable from the Fund's extended fund facility. The extended fund facility is several times that of structural adjustment. For instance, to Pakistan it is about 1.2 billion SDR's, whereas structural adjustment lending is hardly 50 million dollars. I think there is an argument for a merger of these, so that through the program lending type of facility not only the short term concerns of adjustment via exchange rates, via fiscal reforms, via credit policy, can be taken care of, but also, the longer term concerns of poverty redressal and basic needs, things which can be handled more via policy dialogue, rather than just by projectization. Somehow I think the contours of what the policy should be in this new facility when it is merged should be thought through jointly by the Bank and the Fund.

Thirdly, I think the Bank will have to decentralize. It has gone on for too long in a centralized fashion in a world which has been changing, where differences between countries are becoming more and more pronounced every day. The middle-income countries are pulling away from the poor countries. The newly industrializing countries have different problems than others. We are trying to do all this work in the headquarters, at the country desks, with a development strategy which is articulated centrally, with research work which is done centrally. I don't think that is a viable structure. My suggestion would be that a real decentralization of the Bank should be thought through over a ten year period. It can be brought about only in a graduated, step by step fashion. No President, however presidential this institution is, and it is presidential, will ever be able to succeed in doing it overnight. But if there is a long term program, the pains of adjustment to a decentralized organisation would be more bearable and that is all in practical strategy. The plan for decentralization should be drawn up now in concrete terms.

Fourthly, I would say, that the Bank has to become increasingly universal in its approach. By that I mean in terms of expanding its membership. I can not imagine that in the 1980's and the 1990's this will remain the central international institution of the world without communist countries, that Cuba will remain forever outside, that many of the Eastern European countries will remain outside. The trend is already towards that with communist China coming in and even Poland was applying, although nothing came of it.

Asher: And Romania and Hungary are there.

Ul Haq: That's right. Also, it will have to change quite a lot in its staff composition and in its management. I think it has changed. It was largely an Anglo-Saxon institution at its inception, with 70% of the staff Anglo-Saxon. When I left this year, less than 40% of the staff came from the Anglo-Saxon countries. There has been a change in composition and an increase from the developing countries and other countries in Europe. But even now, only 17% of the top management comes from developing countries, which is less than half of even the voting power in the Board. Now one can say it is more difficult to shift the voting power because of the prevailing political, financial and economic realities, but surely unless one condemns 70% of humanity to lack of talent, it should not be that difficult to have good staff from the developing countries. Maybe the criteria of what is regarded as good should change. These are people who naturally have more sympathy, more sensitivity, more concern for development and for developing countries, and that should be regarded as a virtue and not a vice.

Finally, I would say that the Bank has to shed its arrogance. I felt in the twelve years that I was here that the charge of arrogance against the Bank was a correct one. It's not that the top management of the Bank is arrogant. Most of them deal with the top people in the countries, at the Prime Minister or the Finance or Development Minister level and they are mature enough to deal very skillfully with policy issues. In fact, the charge of arrogance comes at the middle and young levels. I have seen this now from the other end, in Pakistan. It is the youngsters who have barely emerged from university, who are very aggressive at our top policy levels, and since I have known some of them here in Washington and know how much they count in policy making, I have just had them thrown out of the offices. I think that with all the goodwill countries may have, and I have a tremendous amount of not only goodwill, but friendship with people who come and many of them I've known for a long time, yet the charge of arrogance is right. I believe it is very necessary to either give more orientation to the staff; not to recruit them directly from universities or, if they are recruited from universities, not to put them immediately into positions where they deal directly and that's where decentralization will help. This is where developing country staff will help, people who have lived in the country and know some of the bureaucratic niceties and delicacies and who have more sensitivity to what the structure of power or social status is in these countries.

Also, it will help a lot if the Bank has close association with other institutions and doesn't act alone. I think that's where I'll support cofinancing with the OPEC Fund, or with the Asian Development Bank, or with the Islamic Bank, or with IFAD or any institution, so that the Bank does not come out as an overbearing, arrogant institution.

It is my feeling, Bob, that the Bank has such assets and such real strength that it can come out more in the open, it can be respected far more without having to exercise those assets or that strength belligerently. I think if we go towards this route where the Bank has more international resources, more decentralization, more program lending, more developing country staff, more cofinancing with other institutions, it will mean the humanization of the World Bank. This is a process which is badly needed in the 1980's if the Bank is going to remain the dynamic reality that it has been over the past thirty-five years.

Asher: Mahbub, we have had a wide ranging and, to me, very enjoyable conversation. As always, you have been informative, articulate and perceptive. We haven't begun to exhaust the list of topics that I can think of for discussion, but perhaps we had better save them for either a later session of this set of interviews or for the next time you come to the U.S.A. Thank you very, very much.

Ul Haq: Thank you so much, Bob. I must say I have thoroughly enjoyed this discussion and it is by no means exhaustive, I agree with you.

The End.